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SUBJECT: CHILE A DEVELOPED COUNTRY BY 2018: FREI'S
ADVISORS ESPOUSE AMBITIOUS AGENDA

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¶1. (SBU) Summary: Advisors to presidential candidate Eduardo Frei advocate pushing Chile into the ranks of developed countries within 10 years via pro-business reforms, pro-labor measures, and support for entrepreneurs. The advisors, part of a progressive policy network known as "Oceanos Azules," also support educational improvements, a "bicentennial constitution" featuring numerous reforms, modernizing the state, and new approaches to incarceration and citizen security. They will present the proposals to Frei in early August. End Summary.

¶2. (U) The Ambassador hosted key members of the "Oceanos Azules" policy team, which is supporting Concertacion candidate Eduardo Frei's candidacy, for a lunch and policy discussion on July 29. Attendees included Pablo Ruiz-Tagle (domestic policy); Juan Pablo Hermosilla (domestic policy); Sergio Henriquez (economics); Jose Moles (energy and environment); Raul Troncoso (economics); and Paula Ahumada (constitutional reform). Reftel reports on a similar event the Ambassador held with opposition candidate Sebastian Pinera's "Grupo Tantauco" policy team in June.

The Big Idea: Chile a "Developed Country" by 2018

¶3. (SBU) Oceanos Azules's central proposal, which they will formally present to Eduardo Frei on August 5, is a far-reaching effort to stimulate political participation and push Chile into the ranks of developed countries within 10 years. Sergio Henriquez, a member of the Oceanos Azules Steering Committee and the Minister of Housing in Frei's first administration, said that with a current per capita income (adjusted for purchasing power parity) of over USD 14,000 per person, Chile could realistically reach USD 20-25,000 per person -- the bottom rungs of the developed country ranks -- by 2018. Chile should also eliminate or drastically reduce poverty at the same time. In order to accomplish these goals, the state needs to lead an intensive effort in which all members of society -- businesses, workers, public institutions, and individuals -- take on new commitments. Keenly aware that Frei will have just one four-year term to make a dent in this 10-year effort, Oceanos

Azules hopes that intensive public engagement now about this and other goals will enable the Frei administration to start quickly on the development effort.

14. (SBU) Improving the business environment -- while balancing workers' demands and employers' interests -- will be a key part of development push. Jose Moles, a former telecommunications CEO and Oceanos Azules advisor, said that the group's plan calls for creation of a National Council on Economic and Social Dialogue, a public-private partnership that will examine questions about labor rights, worker productivity, and business regulation while proposing ways to combat inflation and unemployment. Oceanos Azules would seek to promote greater consistency and stability in government regulation of the private sector. On the employment front, the policy network seeks to increase the number of Chileans in the work force, strengthen workers' rights to organize, and facilitate and expand collective bargaining. They also support pro-business policies like greater labor flexibility and increased productivity.

15. (SBU) Promoting entrepreneurship will be a substantial push of the economic development strategy, Moles reported. Bachelet's policies have been very successful at lifting people out of poverty, Raul Troncoso noted, adding that now the government should expand these efforts to the middle class by increasing support to entrepreneurs. Small, medium and micro enterprises account for 80% of employment in Chile, yet they receive relatively little state support and 15-20% of them fail each year. The state should provide better training and create entrepreneurial networks to support this sector, Troncoso advocated. Raising the total tax take by about 2-3% of GDP -- still well below OECD levels -- could finance the expanded social programs.

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Higher Taxes: Footing the Bill for a Developmental Leap

16. (SBU) Such an expansive effort to promote development would be expensive, and Oceanos Azules leaders were upfront that Chilean businesses and individuals would need to bear the cost via increased taxes. Developed countries have higher taxes, they assert, with OECD members having tax rates of 30% or more, while the global average is 16-18%. (Note: Although not explicitly stated, Henriquez seemed to be referring to personal income tax. End Note.) In Chile today, business profits are taxed at 17% while personal income is taxed at rates of up to 40%. The poor pay relatively little tax and the rich exploit the disparity in personal and business tax rates to hide their earnings, leaving the middle class to foot an inappropriately large share of the tax burden, advisors said. Oceanos Azules proposes preventing tax fraud and placing more of the tax burden on the wealthy by narrowing the gap between personal and business tax rates.

Frei's Rallying Cry: Better Education

17. (SBU) Improving education will be the rallying cry of Frei's campaign, Henriquez said. Should he win the election, educational reform will be Frei's signature initiative, much as President Bachelet has emphasized strengthening and expanding the social safety net and former president Ricardo Lagos promoted better health care. In the early 1990s, Chile made a leap in education by increasing the number of years of mandatory education from eight to 12 and lengthening the school day. Today, Chile needs to make a similar leap, not by providing more hours of instruction (as the 1990s change did) but instead by improving the quality of education and breaching the digital gap between rich and poor.

18. (SBU) Differences in class and wealth are even more harmful to today's students than they were in years past, Henriquez said. A decade ago, a rich student might have more

school supplies and books than a poor student, but today divergent levels of access to computers creates a deep class divide in computer skills and employability. Chile should emphasize digital literacy and consider ways to give every school age child a computer, email account, and internet access, Henriquez commented.

A More Modern, More Productive State

¶9. (SBU) Other elements of Oceanos Azules' development strategy call for state modernization, including developing a more productive civil service. Government employment is bloated by many older, poorly paid and relatively unproductive workers who can't afford to retire. Due to Pinochet-era decrees guaranteeing jobs for life, these people have been kept on in their jobs even though many of them contribute little to their workplaces. Oceanos Azules proposes new policies to improve retirement benefits while rationalizing the workforce, ensuring that less productive workers are removed from the rolls while securing their financial well-being.

Crime and Punishment: Looking for New Approaches

¶10. (SBU) Chileans have a paradoxical relationship to crime and society: despite relatively low crime rates, Chile has an intense societal fear of "delincuencia" and the second highest number of prisoners per capita in the hemisphere. (The United States has the highest number.) Oceanos Azules hopes to re-examine law enforcement policies, such as the incarceration of drug users, and re-cast the public debate about violence, focusing more on structural issues such as domestic abuse, alcohol abuse, and lack of options for young people. Hermosilla requested the Embassy's help in linking Oceanos Azules advisors with American expertise, perhaps at the Department of Justice.

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Reinvigorating Democracy: A Bicentennial Constitution

¶11. (SBU) Lawyer Paula Ahumada briefly described efforts to move past the 1980 constitution designed by military dictator Augusto Pinochet with a series of constitutional reforms collectively dubbed the "Bicentennial Constitution" in honor of Chile's upcoming anniversary. Key proposed changes include eliminating Chile's unusual binomial electoral system for parliamentary seats, extending voting rights to expatriate Chileans, and allowing for greater participation by small political parties. Ahumada hopes that such changes would help re-invigorate popular participation in politics, which has been dropping for the past two decades.

Comment: Different Routes to Similar Goals

¶12. (SBU) Policy development teams for leading presidential candidates Eduardo Frei and Sebastian Pinera demonstrate a surprising degree of agreement on the central challenges facing the next Chilean administration. Both groups want to eliminate or drastically reduce poverty and promote economic development via the middle class. They agree that supporting entrepreneurship, increasing productivity and participation in the work force, and reforming education are the keys to achieving this goal, and both are well on their way to finalizing serious, responsible proposals to share with the public. Nonetheless, the two teams diverge on how to realize these goals. The progressives, not surprisingly, are more pro-labor, more willing to raise taxes, and advocate a larger role for the state, while a strong belief in free markets was the consistent thread in conversations with Grupo Tantauco (reftel). Both campaigns will be challenged to engage the public's attention with these sober proposals after allowing leftist independent candidate Marco Enriquez-Ominami to

dominate the limited policy debate thus far with his controversial calls to legalize gay marriage, give Bolivia access to the sea, privatize the state-owned copper company, and permit abortion. End Comment.

SIMONS